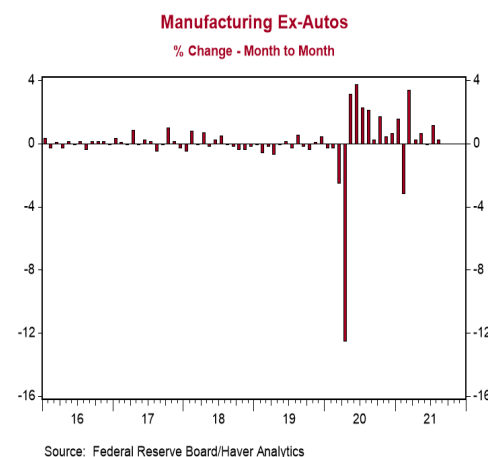
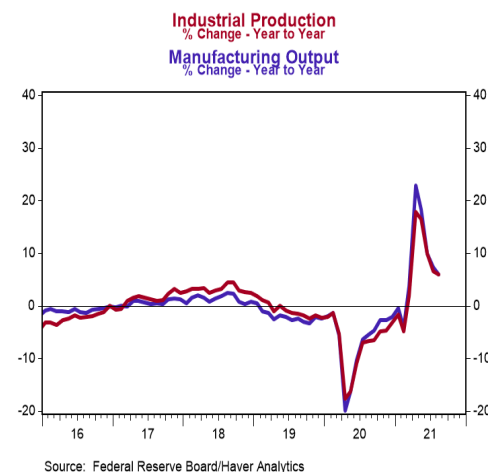


Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Senior Economist
 Bryce Gill – Economist

August Industrial Production / Capacity Utilization

- Industrial production increased 0.4% in August (+0.5% including revisions to prior months), versus a consensus expected gain of 0.5%. Utilities output increased 3.2% in August, while mining declined 0.6%.
- Manufacturing, which excludes mining/utilities, rose 0.2% in August (+0.3% including revisions to prior months). Auto production increased 0.1%, while non-auto manufacturing rose 0.2%. Auto production is down 5.0% versus a year ago, while non-auto manufacturing is up 6.8%.
- The production of high-tech equipment rose 1.0% in August and is up 13.3% versus a year ago.
- Overall capacity utilization increased to 76.4% in August from 76.2% in July. Manufacturing capacity utilization rose to 76.7% in August from 76.6%.

Implications: Industrial production rose less than expected in August, largely the result of the late in the month plant shutdowns related to Hurricane Ida. In fact, the Federal Reserve estimates that without the storm-related headwinds, the overall index would have risen 0.7% for the month. Looking at the details, the disruptions were concentrated in manufacturing (petrochemicals, plastic resins, refining operations) and mining (oil and gas extraction) industries that have a large presence in the Gulf of Mexico. It's not a surprise then that mining was the weakest major category in August, falling 0.6%, its first decline in four months. Meanwhile, manufacturing output managed to eke out a gain of 0.2% despite the disruptions. The gain was driven by continued growth in auto production which rose 0.1% in August after a huge 9.5% gain in July. Outside the auto sector, manufacturing rose 0.2% in August. Finally, utilities output rose 3.2% in August as unseasonably warm weather boosted demand for air conditioning. Notably, the 0.4% gain in the headline index was enough to finally push that measure above its pre-pandemic high. That said, it's important to keep in mind that despite hitting an important milestone, production still has a way to go to meet current demand. Ongoing issues with supply chains and labor shortages are hampering a more robust rise in activity, with job openings in the manufacturing sector currently at a record high and more than double pre-pandemic levels. We expect more temporary disruptions from Ida in September but a return to the upward trend in overall industrial production in the months after. It looks like the worst of Delta concerns are beginning to subside and labor disincentives are dissipating as well with the end of pandemic related unemployment payments. In other factory related news this morning, the Empire State Index, a measure of New York factory sentiment, soared to +34.3 in September from +18.3 in August. Finally, we also got trade inflation data this morning. Import prices fell 0.3% in August while export prices increased 0.4%. In the past year, import prices are up 9.0%, while export prices are up 16.8%.



Industrial Production Capacity Utilization <i>All Data Seasonally Adjusted</i>	Aug-21	Jul-21	Jun-21	3-mo % Ch annualized	6-mo % Ch. annualized	Yr to Yr % Change
Industrial Production	0.4%	0.8%	0.5%	7.0%	11.1%	5.9%
Manufacturing	0.2%	1.6%	-0.3%	5.8%	11.1%	6.0%
Motor Vehicles and Parts	0.1%	9.5%	-5.0%	17.6%	11.6%	-5.0%
Ex Motor Vehicles and Parts	0.2%	1.1%	-0.1%	4.9%	11.3%	6.8%
Mining	-0.6%	1.0%	0.3%	2.7%	29.7%	10.3%
Utilities	3.2%	-3.9%	6.2%	22.9%	-5.1%	2.0%
Business Equipment	0.5%	3.7%	-0.3%	16.7%	14.0%	8.8%
Consumer Goods	0.9%	0.7%	-0.4%	4.9%	5.3%	1.9%
High-Tech Equipment	1.0%	0.0%	-0.1%	3.6%	9.1%	13.3%
Total Ex. High-Tech Equipment	0.4%	0.9%	0.5%	7.5%	11.2%	5.8%
Cap Utilization (Total)	76.4	76.2	75.6	3-mo Average	6-mo Average	12-mo Average
Manufacturing	76.7	76.6	75.4	76.1	75.5	74.4
				76.2	75.8	74.8

Source: Federal Reserve Board